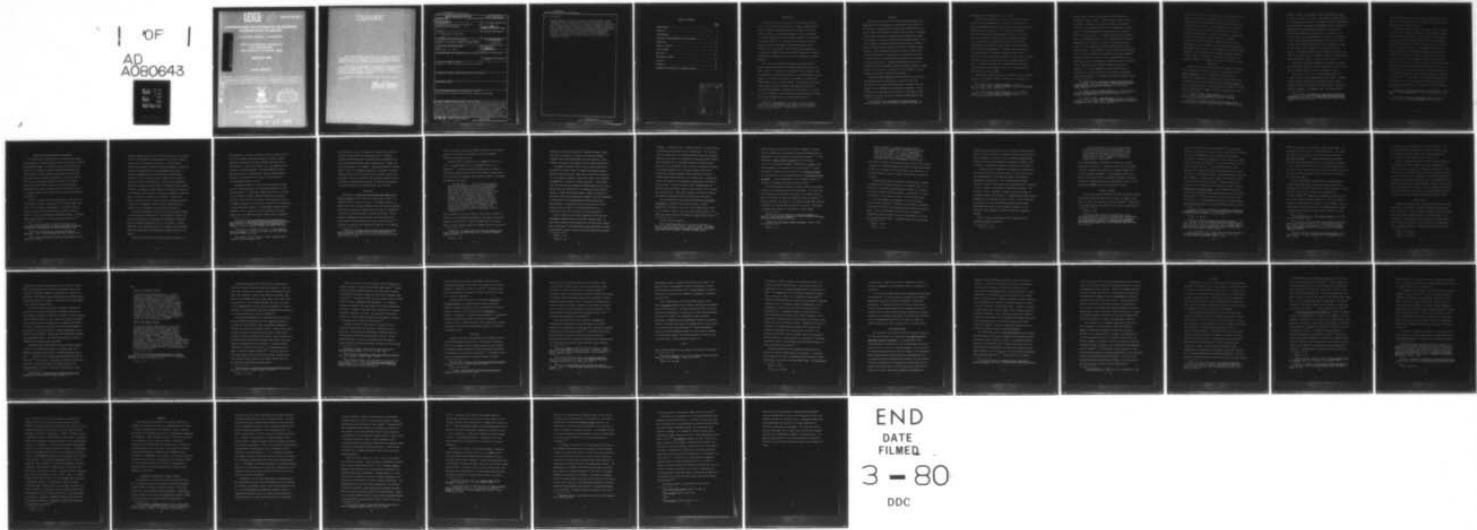


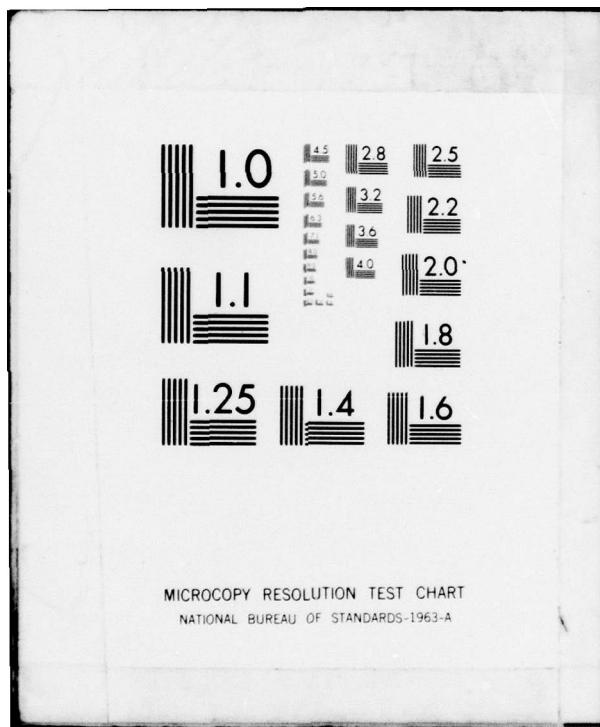
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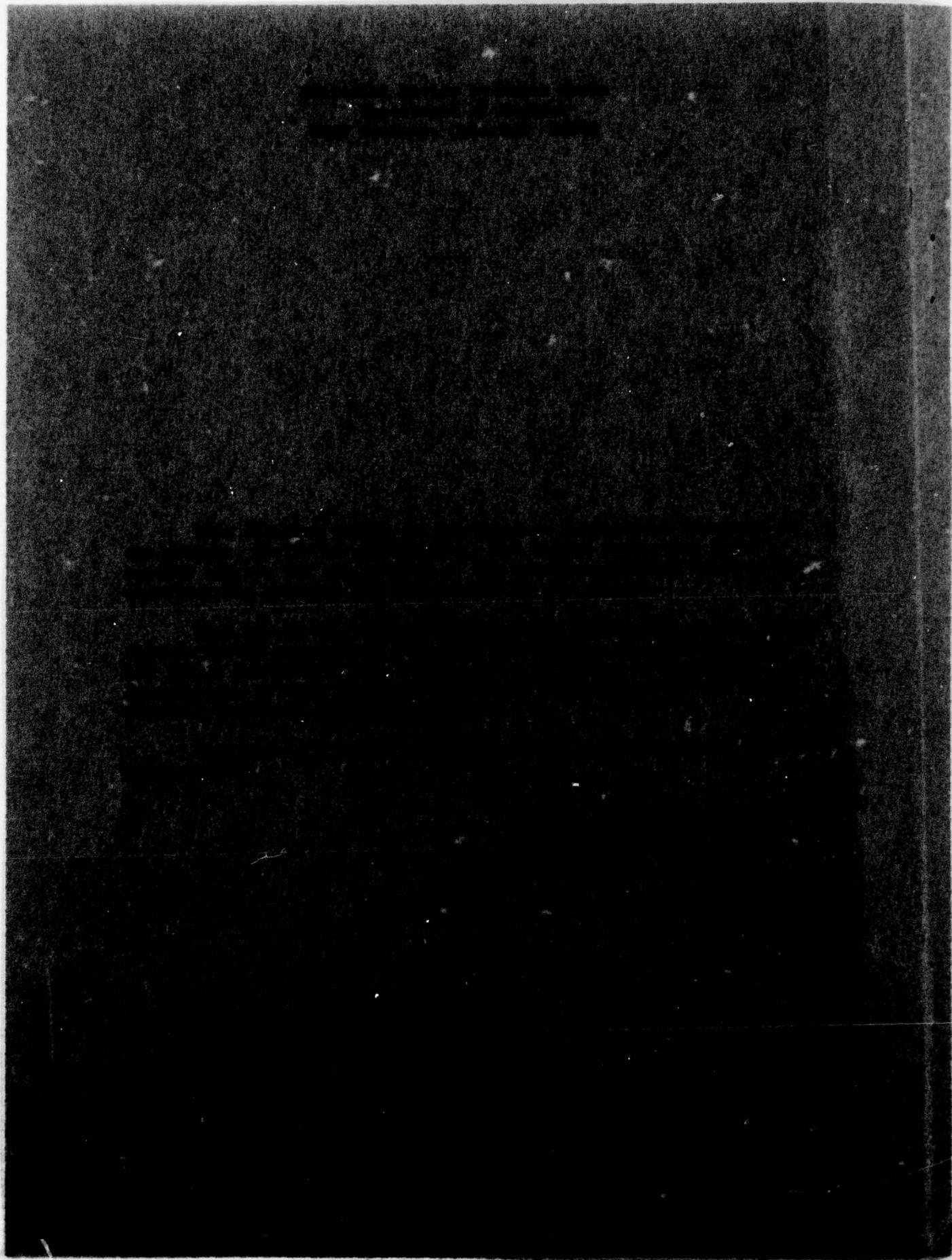
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the most significant distinctions among the evolving forms of social organization has been balance between the private and public sectors. The emphasis upon (1) efficiency, (2) equity, (3) economic stabilization, and (4) economic growth characterizes a stage of economic development. These criteria are used to evaluate the dynamic process of social change. The objective of the paper is to place the American system within an historical perspective and provide insights into its evolutionary direction. The balance which dominates in the years ahead will substantially influence the evolutionary process the United States economy will follow.

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INTRODUCTION

Throughout history the economic problem has been concerned with how to allocate scarce resources to satisfy unlimited wants. Diverse economic systems have emerged over time to resolve the economic problem. Karl Marx has suggested that the development of economic systems to solve the economic problem is an inevitable evolutionary process.¹ At the time of his writings, two early stages of economic development, feudalism and mercantilism, had given way to capitalism. Marx concluded that capitalism is an historical necessity which provides the accumulation of capital required when capitalism is succeeded by socialism and ultimately communism.

One of the most significant differences between forms of social organization has been the balance between the private and public sectors. Systems may be categorized by their emphasis upon (1) allocation of resources (efficiency), (2) distribution of income (equity), (3) economic stabilization (avoidance of inflation and unemployment), and (4) economic growth. This taxonomy will be used in this paper to analyze feudalism, mercantilism, capitalism, socialism and communism. The objective of the paper is to attempt to place the American system within an historical perspective which will provide insights into its evolutionary direction.

¹ Karl Marx, Das Kapital, Trans. from the 3d ed. (1883) by Samuel Moore and Edward Aveling, and edited by Fredrick Engles (Moscow: Foreign Languages Publishing House, 1959), Preface to 1st ed., Vol. I, p.10.

FEUDALISM

The Middle Ages consisted of the period from the fall of the Roman Empire to the beginning of the Renaissance (474-1500 A.D.). This period is characterized by a rigid caste system based upon a code of rights and obligations between lords and serfs. The landed nobility owned the means of production and controlled the output to the extent of dictating silk patterns to maximize revenue.² The church provided a unifying influence through custom and command, which reinforced a static society that did not encourage economic progress. Serfs individual freedom was limited by feudal lords controlling standards of living while the clergy enforced codes of ethics, moreover, a central authority dictated the allocation of resources and equity. Economic stabilization was not yet a problem in this near-subsistence agrarian economy; moreover, economic growth was not thought to be possible in this feudalistic system strongly influenced by Greek political thought.

Athenian thinkers emphasized a political theory in which the individual derived his importance in relation to the state. The search for the origin and functioning of the ideal state was thought to be a prerequisite to insure man's happiness. It was felt that the citizen had a responsibility to contribute to the welfare of the state, and that in return his daily existence and

² Ingrid Hahne Rima, Development of Economic Analysis, 3d edition (Homewood, Illinois: Richard D. Irwin, Inc. 1978), p. 9.

well-being were the responsibility of the state.

Saint Thomas Aquinas, one of the most influential writers of this period, contended that individuals in society live in mutual interdependence thereby establishing a need for quantitative determination of "just price."³ He condemned the exchange of goods for the purpose of improving one's station in life as he believed this would be accomplished at the expense of someone else. Furthermore, he argued that such avarice acts, which resulted from the lust after earthly things, were inconsistent with the needs of the community. Aquinas' views that money was a social necessity as a medium of exchange followed from a belief in the socially necessary exchange of goods, and he condemned any form of interest on money loaned for charitable reasons as usury.⁴ Aquinas' writings, which characterized this period by church dominated social thought; however, also contained seeds for evolution in social thought.

Roman Emperor Marchus Aurelius (AD 121-180), stoic philosopher and writer, for example, viewed the universe as a systematic and

³ St. Thomas Aquinas, Summa Theologica, 2a, 2ae, q.77, cited by James A. Gherity, Economic Thought: A Historical Anthology (New York: Random House, 1965), p. 17.

⁴ St. Thomas Aquinas, Summa Theologica, cited by Phillip C. Newman et. al., Source Readings in Economic Thought (New York: W.W. Norton Company Inc., 1954), pp. 16-21.

rational order in which the individual achieves happiness by conforming to laws of nature. Thomas Aquinas extended this line of thought by reasoning that order and liberty, when properly conceived, are not mutually exclusive but complementary notions;⁵ however, he contended government interference with individual effort should be limited.⁶ St. Thomas recognized that division of labor is a fundamental basis of social organization and progress stemming from the inability of one man to provide all things needed in society; therefore, different people properly work at different tasks.⁷ The exchange of private property resulting from division of labor promotes the interests of the entire community. Although he perceived economics to be a powerful motive force impelling the social organization, Aquinas felt that the interests of the community and not competition should be the ruling principle. The social organization which results from this natural order is one of reciprocity with producer's expecting sustenance from society in exchange for diligence, prudence, labor,

⁵ St. Thomas Aquinas, Quaestiones Quodlibetales Quodlibetum, 7 um, quaestio 7, art xvii ad corpus, cited by James A. Gherity, Economic Thought: A Historical Anthology (New York: Random House, 1965), p. 14.

⁶ St. Thomas Aquinas, Contra Gentiles, 3:71, cited by James A. Gherity, Economic Thought: A Historical Anthology (New York: Random House, 1965), p. 16.

⁷ St. Thomas Aquinas, Summa Theologica, 2a, 2ae, q. 40. art 2 ad corpus, cited by James A. Gherity, Economic Thought: A Historical Anthology (New York: Random House, 1965), p. 15.

and risk.⁸ This shift in orientation of social thought from the welfare of the state to individual welfare contributed to the disintegration of the manor system and provided beginnings of a foundation for a new order. The development of the institution of private property is seen as the key change that led from feudalism to mercantilism. Economic development is promoted when the gains from innovation can be appropriated privately.

Competition replaced the artisan, central government politics replaced the lord, and economic activity acquired meaning outside the domination of the church. Key elements in the transition from feudalism to mercantilism were the religious crusades, expansion of trade, growth in population, and regional specialization of production induced by an unequal distribution of natural resources.

MERCANTILISM

Adam Smith used the term mercantilism to represent the period from the beginning of the 16th Century to the publication of his Wealth of Nations in 1776.⁹ Spokesmen for this period were merchants and administrators pursuing specific goals, which helps to explain the lack of both a generally accepted raison d'être and tools of economic analysis. Economic growth was thought of as a pure conflict situation; for example, one state could grow only at the

⁸St. Thomas Aquinas, Contra Gentiles, 3:85, cited by James A. Gherity, Economic Thought: A Historical Anthology (New York: Random House, 1965), p. 15.

⁹ Adam Smith, An Inquiry into the Nature and Causes of the Wealth of Nations (London: George Bell and Sons, 1908), pp. 427-451.

expense of others; and therefore, relative advantage was sought to enhance the power of the state. This period preceded knowledge of, or concern about, economic stabilization. Equity considerations were dominated by businessmen who appeared to find consistency in promoting policies which would enhance their fortunes while establishing supremacy for their nation. In contrast to this critical view of social organization a benevolent interpretation of this period characterizes mercantilism as a spirit of state building which promoted nothing more than the energetic struggle for the creation of an enduring state and a sound national economy. For example, German literature depicts this period as a removal of dependence upon increasingly oppressive foreign commerce while establishing a belief in their own nation state.¹⁰

Mercantilists implicitly accepted the existence of a mutual hostility among states and therefore sought gold and silver which were considered essential to acquire instruments of war.

Their goal was not just to obtain gold and silver, but to gain a relative power advantage over other nations. Inasmuch as gold bullion accumulation was considered a pure conflict situation, gains from international trade provided a substantial relative advantage to the gaining state. Since mercantilists

¹⁰G. Schmoller, The Mercantilist System and its Historical Significance, translated from Studien über die Wirtschaftliche Politik Friedrichs des Grossen, 1884 (New York: Modern Library, 1931).

considered wealth and power to be proper and mutually consistent goals of national policy, they concluded that a natural long-run harmony exists between these ends.

Bullionists' emphatic belief that power is wealth and wealth is power was the underlying influence in their arguments against the export of gold and silver. They promoted the acquisition of colonies which possessed these precious metals and established protectionist policies to insure a favorable balance of trade to fill the sovereign's coffers. The Navigation Acts reflected a belief that England could permanently maintain a trade surplus. Thomas Mun, a prominent mercantilist writer, lead the attack on the Bullionist position by arguing that gold and silver should be exported to buy resources which, in turn, would bring home more gold when finished goods were exported.¹¹ Toward the end of the mercantilist period, David Hume observed that trade surpluses led to increases in England's money supply with subsequent increases in its imports.¹² This important discovery demonstrated that the mercantilist attempt to accumulate gold indefinitely was self-defeating, and contributed to the evolution in economic thought.

¹¹ Thomas Mun, "England's Treasure by Foreign Trade," cited in McCullough, Early English Tracts (London: Methuen and Co., Ltd., 1963).

¹² David Hume, Writings on Economics, Eugene Rotwein editor (Madison: University of Wisconsin Press, 1955), pp. 45-85.

TRANSITION FROM MERCANTILISM TO CAPITALISM

The transition from mercantilism to capitalism was substantially advanced by several important social, cultural and religious philosophical changes. The medieval virtue of self-denial was replaced by a hedonistic doctrine endorsing material gain and pleasure which, in turn, endorsed the stimuli of self-interest and higher levels of personal consumption. John Calvin and the Puritans led a Protestant Reformation transition in thought which started with wealth acquisition as a sin and ended by establishing the dignity and moral worth of work and the virtue of frugality, both of which endorsed thrift and enhanced capital accumulation.¹³

Max Weber contended that Calvinism played a crucial role in initiating the spirit of capitalism.¹⁴ R.H. Tawney argued that Weber's thesis tended to overemphasize the Puritan influence; since the spirit of capitalism appears to predate historical record.¹⁵ During the Reformation fundamental changes in religious views toward acquisition of resources and loaning money for

¹³ For a lucid discussion of Calvin's teachings, see: Protestantism and Capitalism: The Weber Thesis and Its Critics, ed. Robert W. Green (Boston: D.C. Heath and Company, 1967).

¹⁴ Max Weber, The Protestant Ethic and the Spirit of Capitalism, trans. Talcott Parsons (New York: Scribner, 1967).

¹⁵ R.H. Tawney, Religion and the Rise of Capitalism (New York : Penguin Books, 1947).

interest removed barriers which inhibited the spirit of capitalism. Prior to the Reformation, acquisitiveness was a sign of avarice, usury, and lust for material possessions. Calvin helped to replace this mutually exclusive relationship between economics and religion by establishing how they complemented each other. An important development was to redefine usury by establishing interest's role in the distribution of debtor's and creditor's shares in the gains from production. Another very significant transition in thought endorsed capital accumulation which resulted from work, envisaged as a high calling of God which was evidence of self-discipline, and avoidance of excessive consumption of material goods. In addition, profit was the evidence of careful and faithful exercise of one's calling. Capital accumulation provides a basis for a fundamental change in social organization when combined with the emergence of an intellectual revolution.

During the heightened interest in social and cultural thought of the Renaissance combined with a reinterpretation of man's role during the Reformation, established the individual as inherently good and ultimately responsible for his own welfare. A rising commercial class embraced this virtue of humanity with inalienable rights and challenged the uncompromising supreme authority of the monarch.

During this transition John Locke gave formal expression to

the existence of a society governed by a body of natural laws.¹⁶

This very important contribution helped to initiate economic analysis by attempting to discover general principles which determine price, value, and interest, etc., and establish their relevance to specific problems. This methodological inquiry gave expression to a "laissez-faire" doctrine emphasizing the discovery of natural laws which govern the functioning of self-regulating economic systems.

An important element of transition was described by Dudley North who argued that trade can be mutually beneficial to both trading partners.¹⁷ David Hume advanced this theory in an essay, "Of the Jealousy of Trade," where he argued that flourishing commerce on the Continent would enhance specialization and trade and augment prosperity for all nations concerned.¹⁸ The extension of trade provided the impetus for establishing economic centers. Commercial center activities were not consistent with feudal restrictions. As commercial centers began to grow, townspeople

¹⁶ John Locke, Some Considerations of the Consequences of the Consequences of Lowering of Interest and Raising the Value of Money, cited in I.H. Rima, Development of Economic Analysis (Homewood, Illinois: Richard D. Irwin, Inc., 1978), pp. 37-38.

¹⁷ Dudley North, "Discourses on Trade," in Early English Tracts on Commerce, ed. John R. McCulloch (Norwich, Jarrold and Sons, Ltd., 1952), pp. 125-25.

¹⁸ David Hume, "Of the Jealousy of Trade," Essays (London: Longmans, Green and Company, 1912).

would often pay a lord in exchange for an individual's political freedom to pursue gains from commercial trade. As markets expanded improved techniques of production and specialization of labor occurred and merchant traders formed guilds to promote the safety and welfare of its members. Exchange increased as merchants began to send out in-progress production to craftsmen, and later merchants began to hire workers directly; financial institutions developed in Venice to facilitate this extensive commercial trade. Institutions supporting the extension of trade were instrumental in laying foundations for capitalism which was to follow.

CAPITALISM

Adam Smith's, An Inquiry into the Nature and Causes of the Wealth of Nations (1776), marks the initiation of economics as a separate field of scientific inquiry. The emphasis shifted, in Smith's view, from a system of mercantilism, with copious government regulation and restrictive monopolistic practices, to capitalistic institutions stressing economic efficiency and growth. Equity, guided by enlightened reason, is built into every transition within Smith's "obvious and simple system of natural liberty."¹⁹ His great contribution went beyond mere criticism of the existing

¹⁹ Adam Smith, An Inquiry into the Nature and Causes of the Wealth of Nations, reprinted from the sixth edition with an introduction by Ernest Belfort Bax (London: George Bell and Sons, 1908), Vol. II. p. 207.

order by proposing a competitive market system which he contended would work efficiently and equitably, and would undergird democracy and personal liberty.

Underlying Smith's analysis was a fundamental belief that labor is the real measure of the exchangeable value of all commodities.²⁰ Although classical economics was not capable of solving the paradox resulting from the discrepancy between value in use and value in exchange, Smith provides thought for subsequent discussions of this topic:

The work value . . . has two different meanings, and sometimes expresses the utility of some particular object, and sometimes the power of purchasing other goods which the possession of that object conveys. The one may be called "value in use" the other, "value in exchange." The things which have the greatest value in use have frequently little or no value in exchange; and on the contrary, those which have the greatest value in exchange have frequently little or no value in use. Nothing is more useful than water; but it will purchase scarce anything; scarce anything can be had in exchange for it. A diamond, on the contrary, has scarce any value in use, but a very great quantity of other goods may frequently be had in exchange for it.²¹

This discussion of the labor theory of value tends to result in a confusion by a simultaneous discussion of the cause of value and measure of value (price). Smith's interpretation of the labor theory of value contends labor is the primary factor of production,

²⁰ Adam Smith, An Inquiry into the Nature and Causes of the Wealth of Nations, ed. Ernest Rhys, Vol. 1 (London: Everyman's Library, 1910), p. 26.

²¹ *Ibid.*, p. 28.

therefore, the whole of production ultimately belongs to labor.

This theory is reduced to relevance for primitive agrarian economies when Smith acknowledges functional returns to other factors of production as necessary costs to induce production.²²

The wages fund theory forms a central focal point for the explanation of factor shares as economic development advances beyond the primitive state. Wages must be paid while production is yet incomplete; therefore, saving and capital must accumulate (a wages-fund) to maintain a working population. Smith admits that labor alone does not adequately explain market price, rather, market prices are established by an interaction of the quantity brought to market and effective demand. Smith's discussion of value goes beyond the determination of market price and establishes an appreciation of the interdependence between product and factor markets. He extends his earlier view that rent is the "bountiful gift of nature" by concluding that rent is a differential return due to variation in land fertility.²³

Smith's system is one in which beneficial institutions are spontaneously generated within a system of natural order. It reflected an important social change that had taken place, namely, that the propriety of individual gain became sanctioned by society, which endorsed a mode of resource allocation based upon voluntary

²²Ibid., p. 52.

²³Ibid., p. 132.

exchange. An important twist in Smith's model is the reconciliation of individual self-interest with the common good. The "invisible-hand" of competition is the institution which reconciles divergent interests as it guides the individual in promoting social welfare.²⁴ While promoting his own individual welfare, he unintentionally enhances the social welfare, which is basic to preordained harmony. An essential ingredient of this natural harmony stems from a belief that voluntary exchange between individuals and international trade between nations is not conflict over a fixed prize; rather, both parties to an exchange can experience an increase in social welfare. In Smith's natural order, flexible wages and interest rates preclude the necessity for external forces to adjust for internal crisis. When natural harmony is allowed to develop, government interferences become unnecessary and undesirable.

The interpretation of self-interest developed in The Wealth of Nations was influenced by previous writings. Bernard Mandeville's "The Fable of the Bees" (1705), argued that private vices are public virtues in the sense that greed, gluttony, and luxury all create income and employment through feedback effects.²⁵

²⁴ Ibid., Book IV, Chapter 2.

²⁵ Dr. Bernard de Mandeville, "The Fable of the Bees, or Private Vices and Public Benefits." From the Preface, An Inquiry into the Nature and Causes of the Wealth of Nations, Adam Smith, Ernest Rhys edition (London: Everyman's Library, 1910).

Richard Cantillon's "Essay on the Nature of Commerce" contended that the economy was an automatically adjusting mechanism that is animated by the self-interest or rationality of people.²⁶ In 1959, Adam Smith's Theory of Moral Sentiments depicted man as a creature of self-interest capable of making moral judgments which include empathy as an integral part of self-interest.²⁷ Honest men differ on whether the self-interest of the Wealth of Nations is a contradiction to or a logical extension of The Theory of Moral Sentiments. A careful examination of the literature reveals no evidence to contradict the logical extension theory.

The motivation which stimulates economic activity and provides direction is the self-interest of the individual. "It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest."²⁸ This self-interest is evident in every aspect of individual behavior; it promotes the division and specialization of labor, accumulation of capital, and increases in productivity. Smith argues,

²⁶ Richard Cantillon, Essai Sur La Nature du Commerce en General, in Early Economic Thought, ed. Arthur Eli Monroe (Cambridge, Mass: Harvard University Press, 1924).

²⁷ Adam Smith, The Theory of Moral Sentiments (London: George Bell and Sons, 1911).

²⁸ *Ibid.*, p. 13.

Every individual is continually exerting himself to find out the most advantageous employment for whatever capital he can command. It is his own advantage, indeed, and not that of the society, which he has in view. But the study of his own advantage naturally, or rather necessarily, leads him to prefer that ²⁹ employment which is most advantageous to the society.

The model is founded on the motivating force in man's self-interest combined with a natural harmony of interests to promote the general welfare, as if guided by an invisible hand. The individual, by doing that which is best for himself, does that which is best for the state.

Although Smith clearly establishes the importance of consumer sovereignty as the guiding influence in his natural order, it is incorrect to interpret laissez-faire in his model as a condition of economic activity without government. Laissez-faire is rather an expression of the desire to limit the public sector because "... of the extravagance of government, and of the greatest errors of administration."³⁰ He depicts the purpose of government as promoting conditions and institutions which enhance the natural order. Since the individual's self-interest is satisfied by accumulating private property, the role of government is to establish private property rights. Government actions may increase the

²⁹ Ibid., p. 421.

³⁰ Ibid., p. 326.

productivity and well-being of all its citizens through education.

Public works not initiated by incentives within the private sector may be provided by the public sector to enhance economic growth. Defense, which is not spontaneously generated by a simple system of liberty, is nonetheless essential to preserve its existence.

A central focus in Adam Smith's writings was an inquiry into the nature and causes of economic growth. He felt that division and specialization of labor were the source of the greatest improvement in productivity. This resulted from increased dexterity, saving of time usually lost in moving from one occupation or task to another, and invention of machinery by workmen. The division of labor, he argued, is limited only by the extent of the market (domestic and foreign).³¹ Transportation allows extension of markets, which increases division of labor. With division and specialization of labor and extended markets, barter becomes inconvenient and costly, which provides the impetus to take advantage of the enormous convenience of money as a medium of exchange.

Smith's attack on mercantilism and his support of free trade were elegantly enunciated:

³¹Ibid., pp. 11-20.

We trust with perfect security that the freedom of trade, without any attention of government, will always supply us with the wine which we have occasion for: and we trust with equal security that it will always supply us with all the gold and silver which we can afford to employ, whether in circulating our commodities or in other uses.³²

Free trade advantages, contends Smith, exceed any purported advantages of protection. Freedom of trade, without government protection, appears spontaneously as a natural outgrowth of a nation's economic development. Trade provides a market for a nation's surplus goods and, by extending the market, increases productivity through division and specialization of labor to the ultimate advantage of both nations engaging in trade.

THOMAS R. MALTHUS

The political euphoria following the French Revolution inspired philosophers Godwin and Condorcet to forecast a utopian society devoid of crime, war, disease, and social disorder.³³ Malthus felt this optimism was not warranted and would result in human behavior

³² Ibid., p. 404.

³³ The Marquis de Condorcet was propounding in France extravagantly optimistic theories regarding human perfectability, and William Godwin in England was writing a book, An Enquiry Concerning Political Justice, See Masterworks of Economics, ed. Leonard Dalton Abbott (New York: McGraw-Hill Book Co, 1946), Vol I. p. 183.

and public policies with dire consequences.³⁴ His conclusions logically follow from his belief that food supply may be anticipated to increase arithmetically, while population when unchecked increases in a geometric progression of such a nature as to double itself every twenty-five years.³⁵ During brief periods, positive checks (disease, war, etc.), and preventative checks (late marriages and contraception) would raise income above the subsistence level. His dominant concern, "The Malthusian Trap," was that man's tendency to procreate would dominate the cumulative effect of positive and preventative checks.³⁶ Thomas Carlyle cited economics as the "dismal science" following a reading of Malthus' Principles of Political Economy, in which Malthus describes the inevitability of premature death balancing population with limited food suppliers.³⁷ Malthus disapproval of birth control devices contributed to his underestimating the effects of family planning and technological advances in agriculture during the 20th Century,

³⁴ Thomas R. Malthus, An Essay on the Principle of Population, in Masterworks of Economics, ed. Leonard Dalton Abbott (New York: McGraw-Hill Book Co., 1946), Vol I pp. 186-260.

³⁵ Ibid., pp. 186-191.

³⁶ Thomas R. Malthus, Principles of Political Economy, (2 ed., 1938), reprints of Economic Classics (New York: Augustus Kelley, 1964), pp. 139-140. See also Benajmine Higgins, Economic Development: Principles, Problems, and Policies, revised edition (New York: W.W. Norton and Co., 1968), pp. 55-75.

³⁷ See James Bomar et al., "Bomar, Fay, and Keynes on Malthus," in The Development of Economic Thought edited by H.W. Spiegel (New York: John Wiley and Sons, 1952), p. 107.

subsistence incomes in less developed countries are common, with widespread hunger in years of unfavorable harvests. This concern was expressed in 1972 by the Club of Rome in a book entitled The Limits to Growth.³⁸ Its message was basically Malthusian - population and industrial growth are putting pressure on supplies of food, energy, and fresh air and, unless global equilibrium is established within the next 100 years, the most probable result will be a rather sudden and uncontrollable decline in both population and industrial capacity.

Malthus' most important contribution to the development of economic thought relates to equity and economic stabilization. He argued that Say's Law³⁹ applies only to the "necessaries of life" and that economic crisis results from an inadequacy of "effectual demand."⁴⁰ Savings which accumulate to landlords from rent represent merely potential demand, and "effectual demand" is limited when landlords do not spend all of their income. Therefore, saving pushed to excess would result in underconsumption of goods (a general glut) which would reduce profits, destroy the motive

³⁸ Donella Meadows et. al., The Limits to Growth, 2d ed (New York: Universe Books, 1974).

³⁹ J.B. Say was a French economist who popularized Adam Smith's ideas on the European Continent. He distilled Smith's theories into "Supply Creates its Own Demand." See Mark Blaug Economic Theory in Retrospect (Homewood, Illinois: Richard D. Irwin Inc., 1968), pp. 145-153.

⁴⁰ Robert T. Malthus, Principles of Political Economy, (2d ed. 1936) reprints of Economic Classics (New York: Augustus Kelley, 1964), p. 325.

for production, and ultimately lead to economic crisis. Thus, he concluded unequal distribution of income contributes to lack of sufficient "effectual demand," which forms the basis for his criticism of the generally accepted Say's Law.⁴¹

Malthus challenged the harmony of Smith's natural order and concluded that effective demand, beyond that stimulated by the market price, may be required to overcome an unemployment crisis. Two sources of this demand could be unproductive demand of wealthy people and public works.⁴² Landowners could provide unproductive consumption from within the natural order. The advantage of social works demand would be to provide projects to enhance social welfare while increasing effective demand. Malthus' radical view provided John Maynard Keynes' a key insight to saving-investment decisions, which are a focus of attention in modern macroeconomic theory.

DAVID RICARDO

During the Napoleonic Wars, foreign grain was restricted from importation into England by Napoleon's embargo on British ports. This contributed to a grain shortage in England, resulted in higher grain prices and increased profits for British farmers. They attempted to increase domestic grain production through intensive and extensive cultivation. At the conclusion of the Napoleonic Wars, landlords supported corn laws which preserved their vested

⁴¹ Ibid., pp. 413-437.

⁴² Ibid., pp. 429-430.

interests by prohibiting foreign wheat except in years of famine. These laws perpetuated the intensive and extensive agriculture initiated by Napoleon's embargo on British ports. Agricultural protection, which affected income distribution and economic growth, provided the impetus for Ricardo's contribution to the development of the Classical Economic Model.

The central problem of economics to Ricardo concerned the distribution of income to capitalists, landowners, and workers. This emphasis stimulated an interest in division of scarce resources as the underlying basis for class conflict and Ricardo contended that political stability depended upon an equitable distribution of income. Landowners were viewed as luxury-loving defenders of privilege who did not contribute to economic achievements, while laborers were described as economically weak individuals dependent upon enlightened classes. The capitalists emerged as investors responsible for national growth and power.

Although Ricardo credits Malthus with the original thoughts on rent, it is Ricardo who provides the clearest, most fully developed classical theory of rent. Ricardo establishes rent as the ". . . payment for the original and indestructible powers of the soil,"⁴³ which arises at the extensive margin on fertile land when less fertile land is drawn into production and at the intensive margin as capital is used more intensively on fertile

⁴³David Ricardo, The Principles of Political Economy and Taxation (New York: Everyman's Library, 1969), p. 33.

land:

RENT AT THE EXTENSIVE MARGIN:

If all land had the same properties, if it were unlimited in quantity, and uniform in quality, no charge could be made for its use, unless where it possessed peculiar advantages of situation. It is only, then, because land is not unlimited in quantity and uniform in quality, and because in the progress of population, land of an inferior quality, or less advantageously situated, is called into cultivation, that rent is ever paid for the use of it. When in the progress of society land of the second degree of fertility is taken into cultivation, rent immediately commences on that of the first quality, and the amount of that rent will depend on the difference in the quality of these two portions of land.⁴⁴

RENT AT THE INTENSIVE MARGIN:

If often, and indeed commonly happens, that before . . . the inferior lands are cultivated, capital can be employed more productively on those lands which are already in cultivation. It may perhaps be found, that by doubling the original capital employed on (this land), though the produce will not be doubled . . . it may be increased . . . by something less, and that this quantity exceeds what could be obtained by employing the same capital, on (other) land. In such case, capital will be preferably employed on the old land, and will equally create a rent; for rent is always the difference between the produce obtained by the employment of two equal quantities of capital and labour.

⁴⁴ David Ricardo, The Works and Correspondence of David Ricardo, ed. Piero Sraffa and Maurice Dobb, Vol. 1 (Cambridge, England: The University Press), p. 70.

⁴⁵ Ibid., p. 71.

Population increases cause food prices to increase which allows less fertile land to be drawn into production. Since all food prices increase, food from more fertile land enjoys a return above that necessary to draw it into production (economic rent). Rents do not influence the price level; rather, they result from increased price. Thus, Ricardo concludes that rent is a result of the "niggardliness of nature" and is an unproductive return to landlords. He predicted that population increases would contribute to a long run tendency for rents to increase.⁴⁶

The Ricardian explanation of income distribution to labor is contained within his development of the "wages-fund doctrine." The wage fund to pay workers comes from savings accumulated by capitalistic class and is therefore limited. Workers must be paid routinely during the production process prior to output sales. Following periods of unusually good harvests, wage increases above subsistence would induce early marriages, more births, and larger numbers of children surviving to maturity. Therefore, Ricardo concluded, the tendency for population to increase would cause wages to gravitate toward subsistence.⁴⁷ He did not favor the "Poor Laws" (public charity) which would require taxing profits, thus reducing capital formation and economic growth, while, at the same time, subsidizing population growth.

⁴⁶ David Ricardo, Principles of Political Economy and Taxation (New York: Everyman's Library, 1909), pp. 33-45.

⁴⁷ Ibid., p. 52-53.

Malthus favored the corn laws arguing, they would maintain a generally higher corn price and therefore higher wages.⁴⁸ Ricardo, on the other hand, favored removal of corn laws which he argued contributed to increases in wages and rents with a subsequent fall in profits.⁴⁹ In Ricardo's model, the total product must be divided between laborers, landowners, and capitalists. He concluded population increases would cause wages to tend toward subsistence and rents to increase. The latter would contribute to a long-run proneness of profits to decline. The expectation of declining profits with reduced capital accumulation led Ricardo to forecast a "stationary state" without economic growth.⁵⁰

Ricardo's concern for distribution of income led him to articulate strong views for free trade by opposing corn law protection. He expanded upon Adam Smith's conclusion that free trade promotes division and specialization of labor. Ricardo explained through a wine and cloth example that, although one country may have an absolute advantage in production of both goods,

⁴⁸ William D. Grampp, "Malthus Money, Wages and Welfare," American Economic Review, Vol 46, No. 25 (Dec, 1956).

⁴⁹ David Ricardo, Principles of Political Economy and Taxation (New York: Everyman's Library, 1969), p. 133.

⁵⁰ David Ricardo, "Essay on the Influences of a low Price of Corn on the Profits of Stock," The Works and Correspondence of David Ricardo, eds. P. Sraffa and M.H. Dobb, Vol I (Cambridge, England: The University Press, 1951-1955).

there are grounds for mutually advantageous trade as long as "comparative advantage" exists where each country has a relative advantage in production of one of the goods.⁵¹ The gains result from specialization in production of goods in which each country has a relative superiority.

Through the first two editions of Ricardo's Principles of Political Economy, his elegant system of logic provides an emphatic assurance that hope for the future resides in technical progress, however, in the third edition of Principles, a chapter, "On Machinery," introduces the possibility of technological unemployment where workers may be displaced by machines.⁵² Ricardo's views on income distribution and technological processes were adopted by Karl Marx as fundamental elements in the motion of economic systems.

KARL MARX

A dominant influence upon Karl Marx was the Hegelian view of an historical organic process which is the outcome of opposing forces. The Hegelian dialectic argues that every force (thesis) is ultimately opposed (antithesis) with both forces annihilated, transcending into a third force (synthesis).⁵³ Adam Smith's labor theory of value and Ricardo's accumulated labor in capital

⁵¹ David Ricardo, Principles of Political Economy and Taxation (New York: Everyman's Library, 1969), pp. 82-87.

⁵² Ibid., pp. 263-271.

⁵³ F. Engles, The Development of Socialism from Utopia to Science (Chicago: Kerr and Co., 1903).

qualification had a profound influence upon Karl Marx. Marx contended that the labor theory of value would provide a basis upon which to found a law of motion of economic systems.⁵⁴ According to Marx, the impelling force which initiates social change is economic, and an historical perspective is essential to understand how economic systems evolve. He accepted the possibility of a natural order with harmony. However, he concluded that harmony did not prevail within the constantly evolving capitalistic order, and intolerable inconsistencies would inevitably lead to the transition from capitalism to socialism.⁵⁵

Karl Marx argued that social, political, and spiritual relationships are determined by material means of production inasmuch as a contradiction is generated when capitalists accumulate capital and introduce new technology.⁵⁶ Established institutions become fetters to production as new technology changes the production process which requires new supporting social institutions. The incongruity which results from an outmoded social structure

⁵⁴ Karl Marx, Capital, translated from 3d German ed. (1883) by Samuel Moore and Edward Aveling, and edited by Fredrick Engles (Moscow: Foreign Languages Publishing House, 1959), Preface to 1st edition. Vol 1. p. 10.

⁵⁵ Karl Marx and Fredrich Engles, The Communist Manifesto, translated by Samuel Moore and edited by Joseph Katz (New York: Washington Square Press, Inc., 1964), pp. 57-59.

⁵⁶ Karl Marx, A Contribution to the Critique of Political Economy, trans, N.I. STone (Chicago: Charles H. Kerr and colleagues, 1904), p. 11.

supporting new modes of production initiates social change. The natural order of transformation follows a deterministic pattern from individual self-initiated effort through dependent collective production of socialism, and ultimately to communistic independent collective work.

Even in pronouncing its pro futuro death sentence, Karl Marx's Das Kapital emphatically recognizes capitalism's achievements and historical necessity. He argues the initial source of capital (primitive accumulation) is extracted by the church and businessmen from control of land.⁵⁷ The capitalistic stage of economic development is characterized by businessmen's desire to accumulate capital by enlarging the surplus (s) (surplus value = value created by the worker minus subsistence wage).⁵⁸ Capital accumulation results in increased constant capital (c) which today is referred to as plant and equipment, and variable capital (v) which is used to pay for labor. Marx's formula for profit is:

$$\frac{s}{c + v}$$

Since constant capital can only impart to the value of the product

⁵⁷ Karl Marx, Capital, Vol I edited by Fredrick Engles (Chicago: Charles H. Kerr and Company, 1906), pp. 784-787.

⁵⁸ Ibid., pp. 557-585.

the amount of capital consumed in the production process, all surplus value must come from labor. When surplus exists, the capitalists use it to purchase equipment which is substituted for labor. The unemployment from technological change and capital-labor substitution results in an "industrial reserve army."⁵⁹ Therefore, increased productive capacity with decreased consumption capability, due to subsistence wages and unemployment, lead to overproduction, which drives down prices and contributes to falling profits. Businessmen attempt to increase profits by substituting capital for labor which further contributes to the reserve army. Decreased use of labor results in less profit since surplus can only be derived from labor. Throughout the process of accumulation, constant capital increases, while surplus value decreases, contributing to a declining rate of profit. The falling rate of profit leads to economic crisis for businessmen and any attempts to increase profits are unsuccessful. Therefore, capitalist's desire to accumulate capital provides the basis for crisis and Marx's law of motion.⁶⁰

Capital accumulation, with concomitant falling rates of profit, also leads to exploitation of the laborer. To overcome the falling rate of profit, capitalists speed up machines, extend working hours, and require child and female labor. The unemployment

⁵⁹ Ibid., p. 533.

⁶⁰ Ibid., pp. 671-783.

of workers due to capital substitution, combined with misery in factories, exaggerates the contradictory drive of capitalists to accumulate.

In his early writings, Marx espouses an Hegelian species being self-alienation. In later writings, he expands upon Feuerback's materialism to develop a conscious alienation of dialectical materialism. As capitalism evolves, division of labor expands, and each laborer becomes separated from ownership and control of resources with a relative human devaluation producing an inherent alienation of intolerable proportions. The falling rate of profits, with exploitation and alienation of the worker, provide the dominant influences in Marx's dynamic process of cosial change.

JOHN MAYNARD KEYNES

The depression of the 1930s provides the economic background for John Maynard Keynes' best known work, The General Theory of Employment, Interest, and Money. This unemployment crisis supported Keynes' contention that the classical model (especially Say's Law) did not result in a natural harmony in the sense that a self-adjusting process would return the economy to full employment. Keynes disputed two key propositions which supported Say's Law. He argued the classical postulate that interest rates would equate saving and investment was not adequate as interest rates are not always a sufficient nexus to unite the decision to save with the decision to invest. Saving and investment are determined by

numerous complex influences in addition to the interest rate. Therefore, it cannot be concluded that changes in the interest rate are either necessary or sufficient to maintain a non-inflationary full-employment level of economic activity. He also argued that a full employment equilibrium would not be brought about by flexible wages. Workers are subject to a money illusion, thus their behavior is related to the money wage and they refuse to sustain reductions in their money wages. A refusal of workers to take nominal wage cuts was a denial of the classical wage rate adjustment mechanism. Even if lower money wages were possible, it would not contribute to full employment since lower wages would reduce purchasing power, and inventory buildup would signal production cutbacks. Therefore, adjustment of money wage rates would be an ineffective way to reduce unemployment.

The timely publication of The General Theory during the Great Depression combined theoretical arguments with compelling evidence that Smith's natural order may contain an unacceptable weakness. Keynes was concerned that Smith's natural order might allow prolonged periods of unemployment. He argued that unemployment and human suffering costs, in the short run, exceed benefits associated with classical laissez-faire.⁶¹ The possibility of a general

⁶¹ John Maynard Keynes, The General Theory of Employment, Interest and Money (New York: A Harbinger Book, 1965), pp. 379-384.

equilibrium condition with excessive unemployment motivated Keynes' attack on the classical model and further motivated him to propose an alternative course of action. Although the somewhat ambiguous writings of Keynes have resulted in considerable controversy in interpretation of meaning, they have unmistakably influenced an increase in the role of the public sector. This influence was a natural outcome of his concurrent education in economics and civil service. He contended that central government taxing and spending may be used to influence business fluctuations. Indeed, he contended government should have a full-scale planned discretionary fiscal policy to promote full employment conditions.

The increase in U.S. Government expenditures during World War II appeared to validate Keynes' claim that changes in aggregate demand were necessary and sufficient conditions to maintain a full employment level of income. The Employment Act of 1946 established the Council of Economic Advisors and Joint Economic Committee to monitor the level of economic activity and recommend policies to maintain a non-inflationary full-employment level of income.⁶² This established formal acceptance, by the United States Government, of Keynes recommendation to use functional finance to ameliorate business fluctuations. It was not until the Kennedy-Johnson administration; however, that fiscal policy was used actively to promote economic stabilization.

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The Employment Act of 1946, 60 Stat 23, February 20, 1946.

SOCIALISM

Although Marx's critique of capitalism initiated considerable interest in the transition to the next stage of economic development, it failed to provide a program for those incited to action. This has resulted in controversy over applied aspects of the anticipated economic system's structure. While Marx did not feel obligated to specify the superstructure of the succeeding mode of production, he did enunciate several characteristics which he considered would be desirable in the social organization he envisaged.

Marx contended that capitalism's success in focusing upon capital accumulation resulted in production efficiency and growth which frees the socialistic stage to focus upon equity. It would not be necessary to be concerned with cyclical business fluctuations when capitalists no longer dominated economic activity. A distinctive characteristic of socialism would be the state ownership and control of the means of production; moreover, private ownership of land and right of inheritance would be abolished.⁶³ Equity would be further enhanced by a heavy progressive tax instituted on income. The system would centralize credit, communication, transportation, and production with free education for all children integrated into industrial production. With the abolition of private property rights, which form an essential element

⁶³ Karl Marx and Fredrick Engles, The Communist Manifesto, Introduction by Francis B. RAndall, translation by Samuel Moore, edited by Joseph Katz (New YOrk: Washington Square Press, Inc., 1964), pp. 82-83.

to a self-interest motor mechanism of capitalism, a new driving force for socialism must be identified.⁶⁴ It may be argued that the motor mechanism is the drive associated with the individual doing that which is best for the state, which, in turn, is that which is best for the individual. When the individual does that which is best for society, the size of the pie (GNP) becomes bigger, thus all of its citizens may enjoy a larger share. The specific contribution and sharing scheme would be directed by, "From each according to his ability -- to each according to his needs."⁶⁵

In Capitalism, Socialism, and Democracy, Joseph A. Schumpeter contends that although Marx is correct that socialism is the heir apparent of capitalism, he is correct for the wrong reasons. Marx argued the inevitability of change based upon capitalism's alienation and exploitation, exaggerated by capitalists' attempts to prevent a falling rate of profit. Schumpeter foresees transition to socialism resulting from capitalism's success.⁶⁶ Capitalism increases individuals' standards of living, which ultimately undermines the social and political position of the business class and destroys those loyalties of subordinates which are essential to efficiency. Values related to economic success are replaced, as

⁶⁴ Ibid., p. 94.

⁶⁵ Oscar Lange and Fredrick M. Taylor, On the Economic Theory of Socialism (New York: McGraw-Hill Book Company, 1964).

⁶⁶ Joseph A. Schumpeter, Capitalism, Socialism and Democracy, 3d ed (New York: Harper Torchbooks, Harper & Row, Publishers, 1950), p. 417.

incomes increase, by a desire for security, equality, and regulation. A political system develops an independence from and hostility toward institutions of capitalism.⁶⁷

In response to the question, "Can Socialism Work?" Schumpeter responds, "Of Course it can."⁶⁸ After the requisite stage of industrial development has been attained, the control over the means of production becomes vested in the central authority.

Economic affairs are publicly determined, although managers in factories have sufficient freedom to promote production efficiency without bureaucratic delay. Since a purely altruistic sense of duty is unrealistic the incentive structure must be based upon positive incentives such as prestige, honors, and non-pecuniary rewards, and on negative punishment such as threat of dismissal from work.⁶⁹

In Socialism, an implicit acceptance of an economy without growth results in an ethical persuasion of a common wealth which is thorough egalitarian. Economics is not a dominant influence

⁶⁷ Joseph Schumpeter vehemently opposed the managed economy suggested by Keynes while espousing the success of capitalism abhorred its being kept alive by artificial devices and paralyzed in all those functions that produced the successes of the past. Essays of J.A. Schumpeter, reprinted in Capitalism in the Post-War World, Richard V. Clemence editor (Cambridge, Mass: Addison-Wesley Press, 1951), p. 180.

⁶⁸ Joseph A. Schumpeter, Capitalism, Socialism, and Democracy, 3d ed (New York: Harper Torchbooks, Harper & Row Publishers, 1950), p. 215.

⁶⁹ Ibid., pp. 207-215.

when full bellies prefer justice, equality, and freedom from exploitation of man by man as new cultural dignities become revealed. Though conceding the possibility of socialism's inferior economic performance to capitalism, socialism claims a distinct advantage in the kind of individual it creates. Inflation creates an additional force for change during the latter days of capitalism. Whether full employment is achieved naturally or by high-employment policies, it contributes to inflation as concomitant wage demands remove the only reason wages should not be raised. If unemployment results from minimum wage laws and union wage demands, government policy to expand demand sufficiently to reestablish full employment is inflationary. This perennial inflationary pressure tends to weaken the social framework of society and strengthens subversive tendencies. While Ricardo and Marx predict a stationary state based upon a falling rate of profit, Schumpeter predicts stagnation with sufficient help from the public sector. There is a tradeoff between equity and efficiency, for as government taxes individuals to redistribute income, it reduces their incentive to work. Furthermore, when corporate taxes are increased, the incentive to invest is reduced. Accordingly, efforts to promote equity cause the productivity of the economy to decline at a time when demand is increasing. Therefore, Schumpeter concludes that the spirit of capitalism experiences a fundamental change which establishes the inevitability of socialism.⁷⁰

⁷⁰ Ibid., p. 417.

COMMUNISM

Although Karl Marx forecasts the inevitable transition to communism, his writings are even less enlightening on this stage of economic development than for socialism. He does, however, anticipate state ownership and control of production and regulation of consumption. Marx's writings describe a society with abolition of the division of labor, which he claims is the source of alienation by degrading humans into near-machines. With exploitation alleviated, workers once again become creative, satisfied artisans participating in production and consumption, which contributes to the general social welfare. As with the socialistic system, Marx perceives that the emphasis of this political system will be upon equity because of the success of capitalism in providing sufficient efficiency and growth to obviate further emphasis in these areas.

CONTEMPORARY EXTENSIONS TO ECONOMIC THOUGHT

The emergence of a strong public sector in the post-World War II period may appear to be primarily motivated by Keynesian economic policy to stabilize economic activity or by Marxian concern for a more favorable income distribution. Adolph Wagner provided another theory which holds potentially valuable insights into the evolution of economic systems.⁷¹ He argued that a

⁷¹Adolph Wagner, Finanzwissen Schaft, 3d ed. Leipzig 1890, See also, Richard M. Bird, "The Growth of Government Spending in Canada," (Toronto: Canadian Tax Foundation, 1970), Chapter 4.

functional cause and effect relationship exist between increases in economic growth and the size of the public sector. He further contended that as per capita income increases in industrializing nations, governmental economic activity increases absolutely and becomes a greater proportion of total economic activity. He offered several reasons for this increase in government participation. Foremost is the necessity to preserve complex private property rights. Expanded economic activity encompasses increased division and specialization of labor with concomitant impersonalized centralization of administration due to automation, greater complexity, and interdependencies. Also, attempts to eliminate environmental problems and gain benefits from projects which would not be captured by the market price result in an expanded public sector. For example, the market mechanism does not provide desired quantities of social goods such as education, communications, and financial institutions which have large initial fixed costs and result in collective consumption.

Undoubtedly, each of these explanations of expanded government expenditures provides a partial explanation for the substantial increase in government activity that has been observed in the U.S. Increased government expenditures; however, introduce fundamental structural effects on economic systems beyond the intended provision of public goods and services. Colin Clark,

a British economist, argues that when the size of government becomes twenty-five percent of gross national product, community behavioral patterns experience a basic change.⁷² Expanded government expenditures must ultimately be financed by taxation and a progressive tax system diminishes work and profit incentives contributing to a less productive economic system.⁷³ While a loss of production incentives tends to reduce aggregate supply, increased government expenditures expand effective aggregate demand financed by inflationary financing techniques. Clark therefore concludes that an expanded government sector has an associated inflationary bias.

Since the birth of America in 1776, the role of government has continued to expand. Large increases in expenditures and debt have occurred during periods of war. Prior to Keynes' General Theory in 1936, peacetime deficit spending was considered to be unnecessary and highly undesirable. The Employment Act of 1946 established the responsibility for the federal government to use monetary and fiscal policy to promote economic stabilization. The insatiable desire for public goods, combined with the political difficulty of saying no, have substantially increased the public sector vis-a-vis the private sector in the United States. Backed by a new found freedom to deficit spend, federal government expenditures expanded from eight percent of GNP in 1929 to 22 percent

⁷²Colin Clark, "Public Finance and Changes in the Value of Money," Economic Journal (December 1945) pp. 371-89.

by 1975. In addition, the demand for government goods and services has contributed to deficits in federal budgets in 36 of the past 50 years, with a national debt of \$830 billion dollars by 1979.⁷⁴ Deficit government budgets during expanding phases of the business cycle have contributed to demand-pull inflation, which, in turn, contributes to labor unions' demands for wage increases in excess of anticipated inflation. Influences of this form induce inflation by increasing costs of production (cost-push inflation).

During the late 1970s, citizens groups began to organize to oppose expansion of the public sector in the United States.⁷⁵ On fixed incomes have been particularly hard-pressed to meet increased taxes on their residences. These tax revenues have been used primarily to finance education, which does not directly benefit senior citizens. Therefore, senior citizens, among others, have expressed their dissatisfaction by voting against increased taxes for projects which do not directly benefit them. The visible

⁷⁴ Council of Economic Advisors, Economic Report of the President (Washington D.C.: U.S. GPO, 1979), p. 263.

⁷⁵ "Conservative Cry: Our Time has Come," U.S. News and World Report, February 26, 1979. p. 52; "Proposition 13 and its Aftermath," March/April Business Review (Philadelphia: Federal Reserve Bank, 1979).

property tax is particularly vulnerable because voters are able to express their opinion yearly at the ballot box. The Federal Reserve Bank of Philadelphia Business Review indicates that Proposition 13, while focused on the property tax, represents a desire to respond to a broader discontent. "A government becomes too big and operating too inefficiently, a total tax burden grown too heavy, and an allocation of the tax burden becomes too inequitable."⁷⁶

The passage of Proposition 13 in California was followed in the November 1978 elections by voter approval of similar budget ceilings in several other states. By early 1979, the legislatures of 28 states had joined the drive to limit federal spending by calling for a constitutional convention which would amend the U.S. Constitution to require an annually balanced federal budget. The Organization for Economic Cooperation and Development has found that rejection of increased taxation in the form of a worldwide epidemic of tax evasion and avoidance. In Sweden, for example, where the average taxpayer pays more than 53 percent of his income in taxes and the tax rate on incomes above \$35,000 is 78 percent, discontent among taxpayers has resulted in tax fraud and erosion of the work ethic. Stockholm authorities estimate a loss of ten

⁷⁶ Business Review of the Federal Reserve Bank of Philadelphia (March-April 1979): 8.

to fifteen percent of the national budget due to this cause.⁷⁷

Proposition 13 is indicative of a much broader movement than property tax reform in California. The issue of excessive government participation in economic affairs was widely discussed during the 1979 election of Margaret Thatcher as conservative Prime Minister in England. Mrs. Thatcher's victory was based upon a commitment to reduce taxation and with it the pervasiveness of the public sector.⁷⁸ The Economist contends she (Mrs. Thatcher) was right to press the case against increased direct taxation, pervasiveness of public bureaucracy, limitations of the individual by the growth of legislation, bureaucratic job saving, production destruction, and the inflation generating power of government and trade unions.⁷⁹ A choice has to be made whether to emphasize private or public economic investment activity. In order to remain a pluralistic democracy in which the citizen runs the city, and not vice-versa, there has to be a switch in emphasis back to private wealth creation and choice: the private dividend has to be recreated out of which the public goods can then be produced and distributed.⁸⁰

The dynamic process of capitalism had led to mixed

⁷⁷ U.S. News & World Report (April 9, 1979): 39.

⁷⁸ The Economist (May 5, 1979): 13-14

⁷⁹ Ibid.

⁸⁰ The Economist (April 28, 1979): 13-17.

capitalism in the United States through increased government taxation and expenditures; these have increased the absolute and relative influence of the public sector. Increased emphasis upon ecology and equity has resulted in decreased emphasis upon efficiency, stabilization, and growth. The concurrent loss in consumer sovereignty and the effect upon the work and investment incentives have fundamentally changed our economic system. The emphasis which dominates in the years ahead will substantially influence the evolutionary process the United States economy will follow.